

India

Agribusiness/ Food market

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Presentation outline

- Country overview – Agriculture
 - Dynamics/ Ag Balances/ Prospects
 - Relative competitive positions for major crops
 - Current and Emerging Issues/ possible solutions
- Food Markets
 - Development and current market situation
 - Differences and leading indicators
- Prospects and Summary

Agriculture India- Facts and Comparisons

- 24% of GDP.. *China 16% US 2% World 5%*
- 32% Irrigated.. *China 40 US 12.5 World 18*
- 1.6Ha Avg Farm Size.. *China 0.33 US 197*
 - 170myn ha arable land..30% more than China
 - Second largest tractor population wwide
 - Fert consn 98kg/ Ha... *China 254 US 103*
- Agchem – 55% *Insecticide/ 30 fungicides/15 herbicides*

Emerging Environment- Indian Agriculture

- More open competition
- Reduced barriers to entry in most segments
- World class capabilities will compete locally... borders will be breached
- Composition of world trade changing much more rapidly than composition of production... impact on closed agricultural economies
- Opening up of Agriculture/ WTO implications
 - Leveraging Competitive advantage
 - Losing and gaining supply positions
- Balancing social and economic imperatives

Current India Agricultural Scenario

1980 – Investments in Agri were twice the value of subsidies

2000 – Direct and Indirect Subsidies were triple the value of all investments in agriculture.. and growing

- MSP [Minimum Support Price] essentially operates on two crops – Rice and Wheat – in just a few states
 - Is no longer a ‘support’ price. It is a preferred price [offered selectively] by Govt as buyer of first resort
 - Inequity/ Largesse/ Malpractice/ Waste
- Distortions in prices caused by govt intervention.. Virtually no private investment in agri marketing and trade

India -Country Ag Balance...

[Grain Equivalent - annual]

- Surpluses
 - Wheat 4 myn ts
 - Rice 3 myn ts
 - Import Gaps
 - Vegoil 5 myn ts... equiv to 42myn ts of grain
 - Pulses 1.6myn ts... equiv to 6myn ts of grain
- Nett Shortfall – 41myn ts of grain equivalent

Foodgrain production / procurement

- Gross Wheat and Rice production 160m ts
 - Govt procures 38-40m ts [25pct of crop]
 - Procurement confined to marketable surplus areas
 - 95 % of Wheat from 3 states. 90 % of rice from 5 states...
 - Farmer own consumption/ barter/ hold back – 50/55pct
 - Private Trade accounts for 20/25pct
- Wheat Procurement 20million ts
 - Offtake for poor/ programmes 8m / Sales 5m / Exports 3-4m = 16 million ts
- Rice Procurement 19m ts
 - Programmes 13m ts/ sales 0.4 /Exports 3/ = 16.3 m ts

Rising Support Prices Year on Year

.....While world prices have fallen

- Accumulation of stocks far in excess of reasonable worst case need or agreed buffer norms.
 - ✦ *Stocks of rice and wheat in the Central Pool are more than double of overstated buffer norm*
 - Huge buffer carrying costs... now US\$0.5/ mt/ mth.
 - ✦ *Carrying cost is now 37% of foodgrain subsidy*
- Add > Quality deterioration/ Wastage/ Pilferage/ Losses/
Infrastructure load

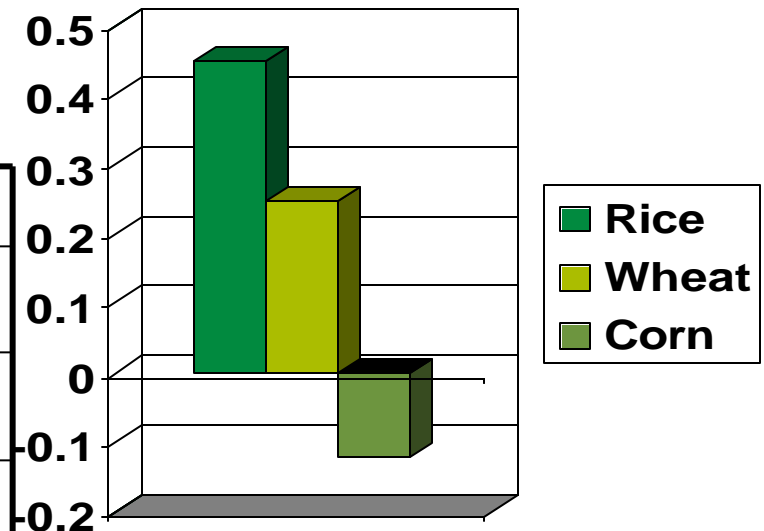
[Total annual World Trade - Wheat 91Myn / Rice 22Myn]

Leverage Country Competitiveness

- Focus on commodities where India has competitive advantage & import with value of surpluses generated

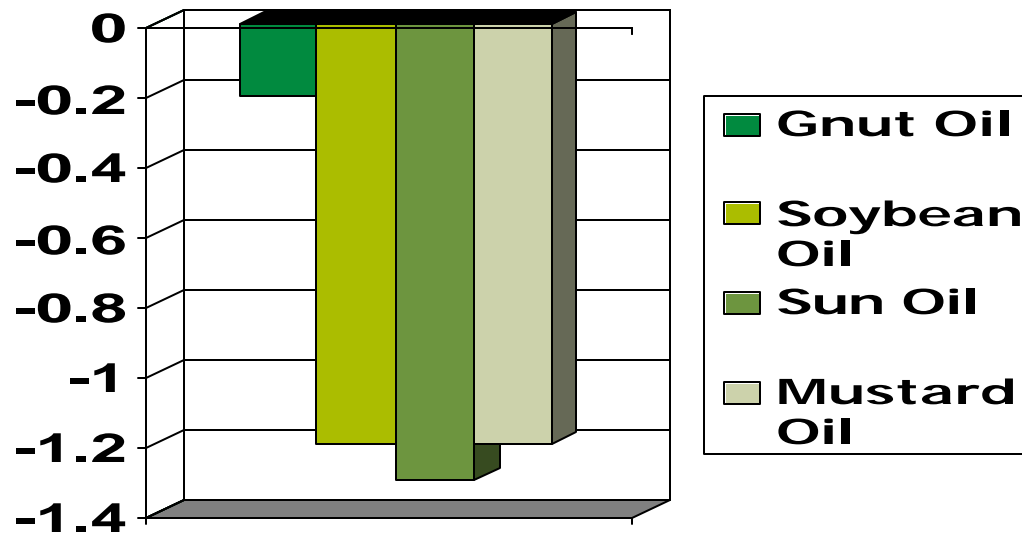
Yield/HA	India	US	World	China
Rice	2.9	6.3	3.7	6.0
Wheat	2.5	2.4	2.5	3.5
Corn	1.6	7.1	3.8	4.9

■ Competitiveness of Indian Crops



Source : NCAER

Indian Vegoil Competitiveness



Even Worse Off Relative to Palm Oil Equivalence

Source : NCAER

Managing 'and' Encashing Grain Surpluses

- Leverage long term competitive advantage
...prodn cost and destination mkts proximity
- Need to build source credibility
 - Consistent supply origin
 - Contract Sanctity
 - Reputation of quality to agreed spec
 - Shipment and load rate/ scheduling
- Build capability to Identity preserve
 - Manage intake and logistics end to end

Farm policy must balance social objectives and economic considerations...

- Drive political consensus- sensitize polity to cost and consequences of current policy
- Incorporate transition mechanisms to manage change and minimise social / political fallout

Redefining Govt Intervention 1

Support

- Support prices to be operative across a wide range of target crops
- CACP support price recommendations to be mandatory. Withdraw all indirect subsidies and replace with per hectare cash subsidy
- Focus on remote/ outlying areas where infrastructure/ trade capability is limited. Operate countrywide
- FCI to be a buyer of last resort

Redefining Govt Intervention 2

Procurement

- Delink food security/ relief linked procurement from support price operations
- FCI to maintain within range of approved buffer stock for specified products each quarter.
 - o Dispose off excess or acquire supplemental quantity by open tender immediately at/ after crop harvest
- Buffer Stock norms to be periodically revised

Redefining Govt Intervention 3

Distribution

- Grain distribution for public/ welfare/ relief programmes only
- Monetise BPL / PDS... cash or food stamps instead of grain
 - o Use widely networked public sector banking system
 - o Avoid multiple handling/ pilferage/ waste/ corruption/ infrastructure load/ Inequity

Suggested Transition Mechanisms

- Proportional monetary support to impacted states for Rice and Wheat for 3-5 years
 - Linked to agreed, quantified and publicized phased reduction in Rice and Wheat procurement
 - Recommend to states to use as a per hectare direct subsidy
- Widely implement support prices on a broad basket of alternate crops
 - Allay fears of marketability
 - Drive much needed crop diversification

➤ **Politically sustainable/ Socially equitable**

Indirect Subsidies – Impact

- ➔ Distorted markets... Dangerously continuing Supply side thought process...
- ➔ Distorted cropping patterns.
 - ➔ Surpluses in crops and quality with limited marketability
- ➔ Overexploitation of ground water – impact on recharge
- ➔ Indirect subsidies [Fertilizer etc] are not exactly farm subsidies and lead to uneconomic resource utilization
- ➔ Foodgrain subsidy has increased dramatically from Rs2,850 crore in 91-92 to > Rs17,600 crore in 01-02.
 - ✦ *For current budget year estimated to be Rs. 21,200 crore.*

Major spin off benefits..

- Will align grain markets with alternate crops and gradually with worldwide values
 - Will reduce cropping distortions
 - Will improve flow of technology/ genetics
- Will attract much needed private investment in grain handling/ infrastructure/ financing
 - Demand led quality / identity preservation
 - Trade' surpluses nationally and internationally before losing value
- Will Spur investments in food processing
- Will release huge funding for developing farmgate infrastructure and value adding investments
- **Arrest land degradation...conserve water table**
Will make farming long term sustainable

POULTRY/ FEED

- INDUSTRY OVERVIEW

- 70 % of India's popln is vegetarian by
“economic” compulsion- not religious belief
- Current Meat Consumption < 4 kg/ year
- Per capita poultry consumption ~ 0.7 kg/yr
- Bombay ~ 9kg, Delhi ~7kg
.....and World average..~ 10kg/yr
 - Average size of bird at market < 1 kg
..... not all corn fed
 - Surplus protein meal production
 - Current Industry fragmented and regional
 - Producer's margins distorted

Poultry / Feed - India

- Economic Growth will drive meat consumption
- Poultry the only meat with Demand AND Supply stretch
- ✓ Surplus Protein Meal
- ✓ Growing Corn Supply Base
- ★ Huge Gap between Country average and City consumption
- ★ Industry fragmented and ripe for consolidation

Farmer Credit - Dominant Sources and Cost

- Capital Goods
 - Banks
- Marketable Surplus areas > crop related
 - Commission Agents... **PLR +12-18%**
- Across segments
 - Cooperatives.. Varying capability by region
- Input related
 - Industry/ Trade.. Built into transaction cost

CROP INPUT FUNDING - PRIVATE

NEED	NO OF DAYS	FUNDING SOURCE
FIELD PREPARATION / LABOUR SEED BASAL FERTILIZERS HERBICIDES	30	LAST CROP
FERT TOP DRESSING INSECTICIDE FUEL / POWER LABOUR	70	LAST CROP INPUT MFRRS INPUT TRADE (DSTRBTRS) RETAILERS
LABOUR EQUIPMENT	30	INPUT TRADE UNSECURED PRODUCE BUYERS - SECURED EQUIPMENT HIRERS

India..... Has it changed..!!

From 900 mn poor

To 440 mn middle class

From 400 million
illiterates

To a Software
development centre

Conservative

To Experimentation

Manufacturer is King

To Consumer is King

India - The food market

- Vegetarianism - Economic v/s Religious bar
 - Impact on future protein intake
 - Cultural > barrier to wet mkt dominance as mkt develops
- Deep rooted habits / beliefs
- Convenience - Seek an intermediate level
- Male dominated - old mktrs mindset -
Changing rapidly for packaged foods

By 2005

- India can be the largest food factory
- Food Habits are changing
- Basic Foods is the major opportunity..
- Value added basic foods consumer segment will grow by 140%.. 200myn people will shift from subsistence to higher value basic foods.. Mkt size will triple to \$60Bn
- Winners will be players who will operate locally.
Understanding sourcing will be the big differentiator

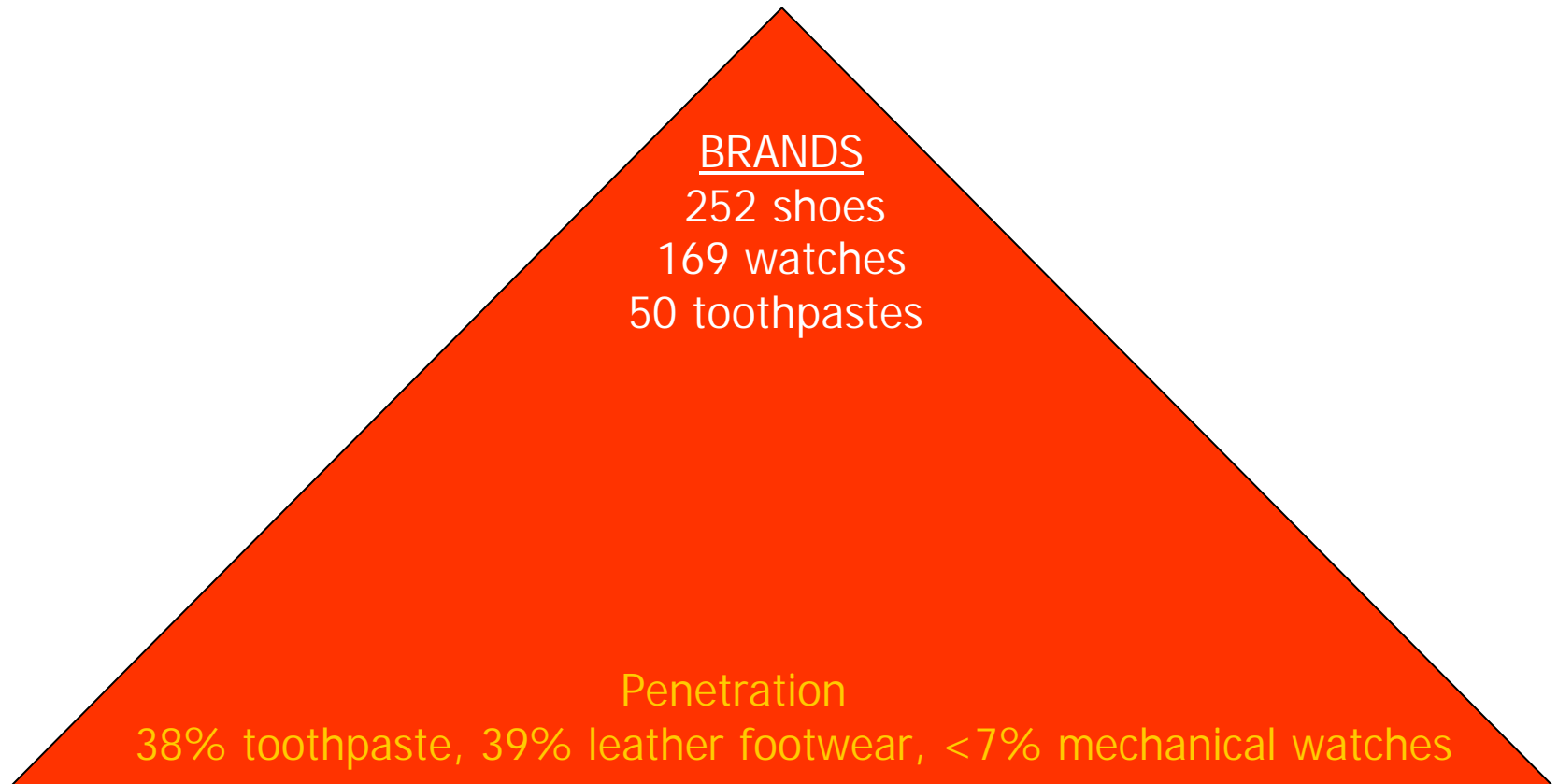
We believe that these capabilities can only be built by large organizations with bold visions and big aspirations... these organizations will make money by turning many of today's problems into opportunities.

[McKinsey study Nov 1996]

India... Food Market

- **Size of Mkt oppty is strategy specific**
 - * Emerging mkts [Iceberg] demand .. Latent potential several times larger than apparent
 - * Marketers work with a range of pain / gain scenarios .. Beyond single point estimate
 - * Visible Brand multiplicity .. But mostly low penetration

The Iceberg Illusion



Large brand proliferation – low category penetration

Changing Structure of Food Markets

- Splitting up of traditional families..emergence of smaller nuclear families
- Changing food consumption patterns.
- Emergence of a larger and more assertive class of working women...time and convenience is important
- Young adults influencing some change in urban food habits
 - exposure to western foods

Core is traditional – experimentation at the periphery

India ... the Big Mac Index

USA	2.44
Mexico	2.11
Brazil	1.61
Japan	2.85
Thailand	1.48
Philippines	1.36
China	1.20
India	1.17

India...The Price Factor

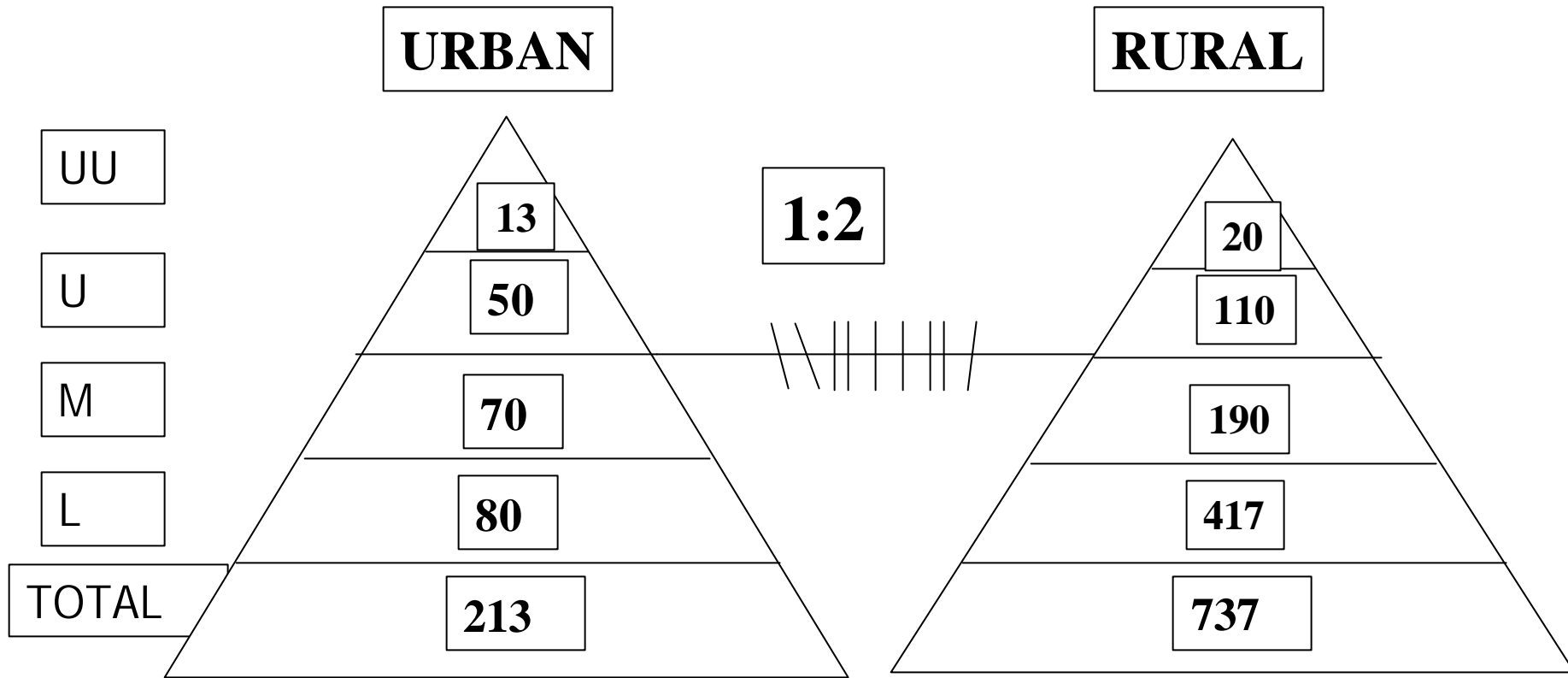
	Launch Price	Subsequent price (Rs)
Ray Ban	1950+	945
Reebok	1500+	900
Baskin Robbins	30	25
Maggi Noodles	3	7 and 5

India...The Market

Category Comparisons

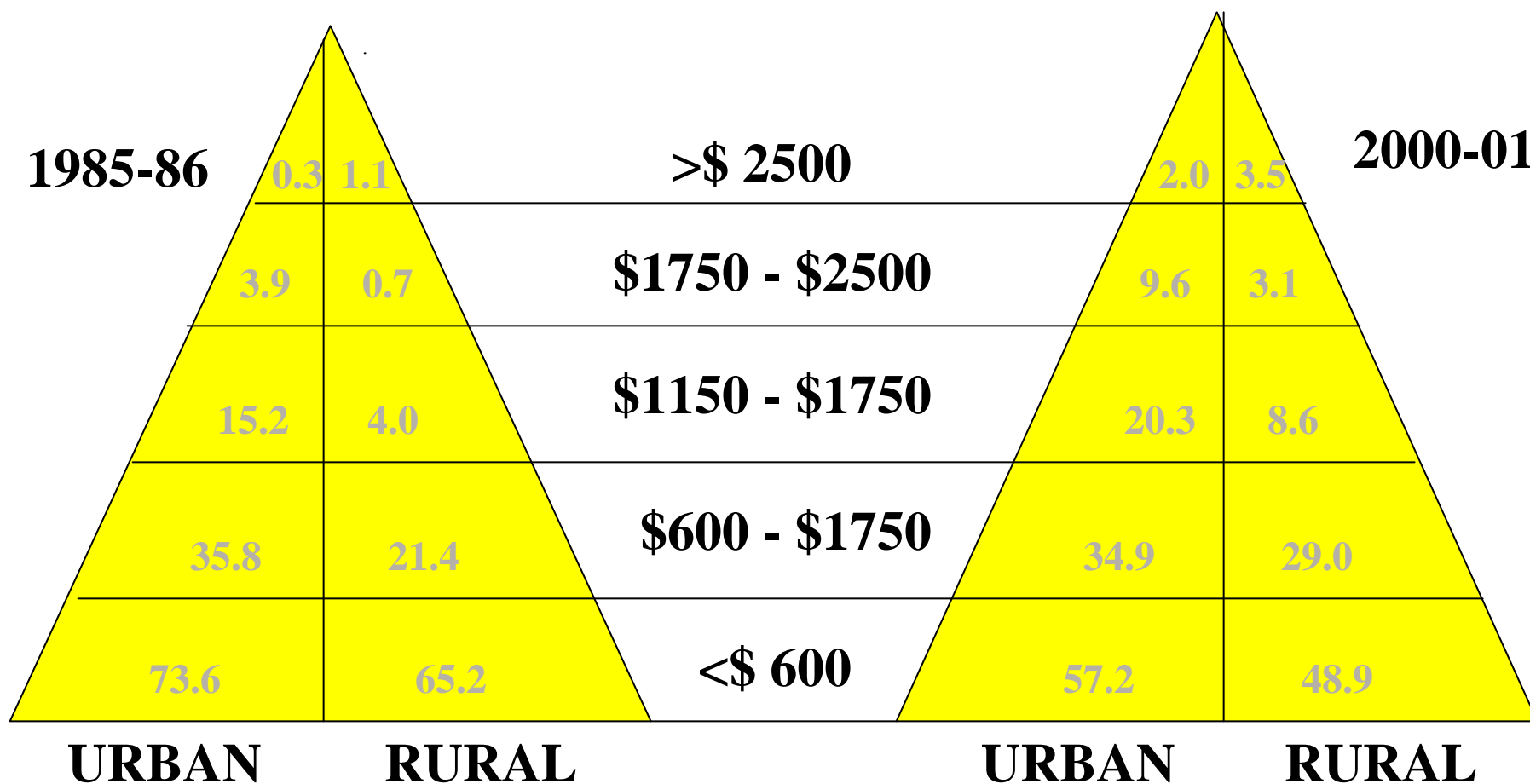
Product	Price	Size Of The Market
Biscuit	Rs 40-125 per Kg.	350 million
Chocolate	Rs 450+ / per Kg.	50 million
Colour TV	Rs 9000+	1.6 mn pieces p.a.
B& W TV	Rs 4000+	4.8 mn pieces p.a.

Misleading "Urban" Mindset



- » Rich is not necessarily urban
- » Rural rich dispersed - difficult to reach

Distribution of Household Annual Income



Food Businesses - Some Successes !!

Projecting rapid adoption of packaged / western style foods can be misleading

- ↓ Noodles - Maggi / Ramsen
- ↓ Corn Flakes - Kellogs
- ↓ Dairy Whitener
- ↑ Loaf Bread - 50 yrs / Convenience / lifestyle
- ↑ Pkgd Butter - 25 yrs / Taste / keeping quality
- ↑ Pkgd spices / masalas - Convenience
- ↑ Cookies - Assoc nourishment / Low pack cost
- ↑ Salt - Iodized / Clean / Low cost in diet

Food Businesses - Some Successes !!

- ⇒ McDonalds / KFC/ Pizzas / TGIFriday
- ↗ Packaged Atta [Flour]
- ↗ Frozen Poultry
- ↗ Packaged Savories / Indian snacks
- ↗ Sauces / Additives

Market pays for perceptible quality differential - not enough premium at retail end for ability to deliver consistency at similar quality range

Way Forward

- Drive consensus on competitive advantage
 - Align investments to backward and forward linkages within targeted crop segments.. Lab>land>value addition
 - Scrap indirect subsidies.. farm subsidies to be direct and line of sight.. Challenge special interests
 - ❖ With sharp understanding of WTO obligations
 - ❖ Incentivising distortions has created imbalanced and idle assets
 - Plan for transition mechanisms... graded timeline
 - Get legislation cleaned up of outdated controls
 - Consistent environment to attract long term investment
 - Deploy the best talent to monitor and execute plan
- Invest [not subsidize] for long term competitiveness.**